

IB Economics Higher Level (HL) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. What does a current account surplus indicate?**
 - A. Higher imports than exports
 - B. Equal imports and exports
 - C. Higher revenue from exports than imports
 - D. Negative net income flows

- 2. What term describes the possible production that would occur in an economy if all available factors were being fully employed?**
 - A. Potential output
 - B. Current output
 - C. Optimal output
 - D. Fringe output

- 3. What do we call goods or services that are beneficial to society but are under-provided and under-consumed by the market?**
 - A. Demerit goods
 - B. Public goods
 - C. Merit goods
 - D. Negative externalities

- 4. What term refers to unemployment that occurs when wages are kept above the equilibrium wage rate due to government action or trade unions?**
 - A. Real wage unemployment
 - B. Frictional unemployment
 - C. Structural unemployment
 - D. Seasonal unemployment

- 5. What situation occurs when there are sufficient economies of scale to support only one firm in the market?**
 - A. Natural monopoly
 - B. Artificial monopoly
 - C. Perfect monopoly
 - D. Oligopoly

6. In which type of oligopoly do firms collaborate to set prices or output levels?

- A. Non-collusive oligopoly**
- B. Collusive oligopoly**
- C. Perfect oligopoly**
- D. Competitive oligopoly**

7. What is included in the current account?

- A. Capital flow from investments in foreign markets**
- B. Trade in goods and services plus net investment income**
- C. Government spending on foreign aid**
- D. Export tariffs imposed by a government**

8. What does the law of diminishing average returns indicate?

- A. Every additional unit always increases output**
- B. Output per unit of variable factor will eventually diminish**
- C. Marginal returns increase indefinitely**
- D. Fixed factors do not affect output**

9. What term is used to describe the growth of real output in an economy over time, typically measured in real GDP?

- A. Economic growth**
- B. Market growth**
- C. Financial growth**
- D. Capital growth**

10. In terms of exchange rates, what does revaluation imply?

- A. A decrease in currency value**
- B. Increased currency value in fixed exchange systems**
- C. Increased currency value in floating exchange systems**
- D. Overall inflation in a country**

Answers

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1. C
2. A
3. C
4. A
5. A
6. B
7. B
8. B
9. A
10. B

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Explanations

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1. What does a current account surplus indicate?

- A. Higher imports than exports
- B. Equal imports and exports
- C. Higher revenue from exports than imports**
- D. Negative net income flows

A current account surplus indicates that a country is earning more from its exports than it is spending on imports. This is illustrated by the concept of trade balance, which is a key component of the current account. When a country has a surplus, it signifies that there is a greater flow of income entering the country from international trade, as the value of goods and services sold abroad exceeds the value of goods and services purchased from other countries. In this context, a current account surplus can also reflect stronger foreign demand for a nation's products, which can be beneficial for the country's economy by supporting domestic production and potentially leading to higher employment rates. A surplus can also indicate effective competitiveness of domestic industries in the global market. In contrast, the other options present scenarios that do not align with the definition of a current account surplus. Higher imports than exports would lead to a current account deficit, equal imports and exports would result in balance, and negative net income flows imply that the country is losing more income abroad than it is receiving, which does not align with the notion of a surplus.

2. What term describes the possible production that would occur in an economy if all available factors were being fully employed?

- A. Potential output**
- B. Current output
- C. Optimal output
- D. Fringe output

The term that describes the maximum level of production that an economy can achieve when all available factors of production are fully employed is known as potential output. This concept is crucial for understanding the productive capacity of an economy. Potential output reflects the economy's ability to produce goods and services when resources, such as labor and capital, are utilized efficiently, without leading to inflationary pressure. Current output, on the other hand, refers to the actual level of production occurring in the economy at a given time, which can be above or below potential output depending on various factors such as economic conditions or demand levels. Optimal output refers to the best production level that maximizes economic welfare, but it does not specifically account for full employment of resources. Fringe output is not a standard economic term related to production capacity and thus does not apply in this context. Understanding potential output is essential for policymakers, as it sets a benchmark for assessing economic performance and guiding decisions to stimulate growth or address issues of unemployment.

3. What do we call goods or services that are beneficial to society but are under-provided and under-consumed by the market?

- A. Demerit goods**
- B. Public goods**
- C. Merit goods**
- D. Negative externalities**

The correct identification of these goods and services as merit goods highlights their importance to societal welfare. Merit goods are characterized by their ability to generate positive externalities, meaning that their consumption not only benefits the individual purchasing them but also has advantageous effects on society at large. These goods and services are often under-provided and under-consumed in a free market due to information failures. Consumers may underestimate their value or benefits, leading to lower demand and, consequently, less supply than is socially optimal. Examples of merit goods include education and healthcare, where increased consumption can lead to a more knowledgeable population and a healthier society. In contrast, demerit goods refer to goods that are considered harmful and are over-consumed, while public goods are those that are non-excludable and non-rivalrous, such as street lighting, which can lead to free-rider problems. Negative externalities refer to the undesired side effects of consumption or production that affect third parties, which is not the case with merit goods. Understanding the role of merit goods is essential in recognizing the need for government intervention to promote their consumption, ensuring that society as a whole benefits.

4. What term refers to unemployment that occurs when wages are kept above the equilibrium wage rate due to government action or trade unions?

- A. Real wage unemployment**
- B. Frictional unemployment**
- C. Structural unemployment**
- D. Seasonal unemployment**

The term that refers to unemployment occurring when wages are maintained above the equilibrium wage rate due to actions such as government policies or the influence of trade unions is known as real wage unemployment. This situation arises when the price of labor is artificially elevated, which can lead to a surplus of labor in the market—meaning that more individuals are willing to work at that higher wage than there are jobs available. When wages exceed the equilibrium level, employers may not be able to hire as many workers as they would at the market equilibrium, resulting in a scenario where some individuals remain unemployed despite their willingness to work. Real wage unemployment reflects the rigidity in the wage-setting mechanisms, and it is distinct from other forms of unemployment such as frictional, which is short-term and voluntary, or structural, which relates to a mismatch between skills and job requirements in the economy. Seasonal unemployment, on the other hand, pertains to predictable fluctuations in demand for labor at certain times of the year and does not relate to wage levels.

5. What situation occurs when there are sufficient economies of scale to support only one firm in the market?

- A. Natural monopoly**
- B. Artificial monopoly**
- C. Perfect monopoly**
- D. Oligopoly**

A natural monopoly exists when a single firm can provide a good or service to an entire market at a lower cost than any potential competitor due to economies of scale. This situation typically arises in industries that require substantial infrastructure or high fixed costs, such as utilities (water, electricity) or railways. In these cases, as the firm produces more, the average cost of production decreases, which allows one firm to meet the total demand in the market more efficiently than multiple firms could. This efficiency makes it impractical for new entrants to compete, because they would have higher average costs than the established firm. Thus, a natural monopoly is characterized by the fact that having just one firm is more beneficial for consumers and the economy than having multiple firms that would just duplicate infrastructure and lead to higher costs. This concept contrasts with artificial monopolies, which arise from specific legal protections or business practices that prevent competition, rather than through economic efficiency. The terms perfect monopoly and oligopoly describe different market structures that do not revolve around the conditions of economies of scale that characterize natural monopolies.

6. In which type of oligopoly do firms collaborate to set prices or output levels?

- A. Non-collusive oligopoly**
- B. Collusive oligopoly**
- C. Perfect oligopoly**
- D. Competitive oligopoly**

In a collusive oligopoly, firms work together to set prices or output levels, effectively acting as a single entity in the market. This collaboration can take various forms, such as formal agreements or more informal understandings. The key characteristic of collusive oligopoly is that the firms recognize their mutual interdependence and can maximize joint profits by coordinating their actions, rather than competing against each other. This behavior contrasts with a non-collusive oligopoly, where firms may still be few in number but do not engage in any form of collaboration. In non-collusive oligopolies, firms make independent decisions regarding prices and outputs, which often leads to competitive behavior instead. The other options, such as perfect and competitive oligopoly, are not typically used terms in this context. The concept of perfect competition refers to a market structure with many buyers and sellers where no single firm can influence the market price, while competitive oligopoly implies some contest for market share without formal collusion, which does not align with the question's emphasis on collaboration.

7. What is included in the current account?

- A. Capital flow from investments in foreign markets
- B. Trade in goods and services plus net investment income**
- C. Government spending on foreign aid
- D. Export tariffs imposed by a government

The current account of a country's balance of payments primarily includes trade in goods and services, along with net income from investments and transfers. This encompasses the value of exports and imports of goods (such as manufactured products and raw materials) and services (like tourism and financial services). Additionally, net investment income, which includes income earned on investments abroad minus payments made to foreign investors, is also part of the current account. In this context, the focus on trade in goods and services, complemented by the net income component, provides a comprehensive view of a country's economic transactions with the rest of the world. This is critical for understanding a nation's balance of payments and its overall economic health. The other options relate to different aspects of economic transactions that are not part of the current account. For instance, capital flows from investments in foreign markets pertains to the capital account, which captures financial transactions rather than trade in goods and services. Government spending on foreign aid involves financial outflows, but it doesn't fit within the current account's framework, as it is not related to trade in goods or services or investment income. Lastly, export tariffs are levies imposed on goods sold abroad, which can influence trade figures but do not directly constitute a component of the current account itself.

8. What does the law of diminishing average returns indicate?

- A. Every additional unit always increases output
- B. Output per unit of variable factor will eventually diminish**
- C. Marginal returns increase indefinitely
- D. Fixed factors do not affect output

The law of diminishing average returns, also known as the law of diminishing returns, suggests that as more units of a variable input (like labor) are added to a fixed factor of production (like machinery or land), the additional output produced by each additional unit of the variable input will eventually decrease after a certain point. This principle reflects how, beyond a particular point of input, each new unit contributes less to output than the previous unit. For example, if a factory employs more workers while keeping the amount of machinery constant, initially, the output may increase significantly. However, as more workers are added, they may start to crowd each other or have less machinery to work with, leading to a situation where additional workers produce less and less additional output. Understanding this concept is crucial in production theory and helps explain why simply increasing labor or other variable inputs does not guarantee proportionate increases in output. The correct answer accurately captures the essence of this economic principle.

9. What term is used to describe the growth of real output in an economy over time, typically measured in real GDP?

- A. Economic growth**
- B. Market growth**
- C. Financial growth**
- D. Capital growth**

The term "economic growth" specifically refers to the increase in the real output produced within an economy over a specified period, with real GDP serving as the primary measure of that output. Real GDP adjusts for inflation and provides a more accurate reflection of the economy's size and how it evolves over time. By examining changes in real GDP, economists can assess whether an economy is expanding or contracting, which is essential for understanding overall economic health and making informed policy decisions. The other terms, while related to growth, do not capture the broad concept of economic expansion as it pertains to output and production. Market growth might refer to the expansion of specific segments or sectors within an economy without necessarily considering the overall output. Financial growth typically focuses on the increase in financial assets or capital within markets, rather than output itself. Capital growth generally pertains to the increase in physical capital stock, such as machinery or infrastructure, but it does not encompass the wider context of output growth reflected in economic terms.

10. In terms of exchange rates, what does revaluation imply?

- A. A decrease in currency value**
- B. Increased currency value in fixed exchange systems**
- C. Increased currency value in floating exchange systems**
- D. Overall inflation in a country**

Revaluation refers to the official increase in the value of a country's currency in relation to other currencies, particularly within a fixed exchange rate system. This process is typically implemented by a country's government or central bank when they decide to strengthen their currency deliberately. In fixed exchange rate systems, where the currency's value is pegged to another major currency or a basket of currencies, revaluation means that the pegged value is adjusted upwards. This leads to an increase in the purchasing power of the currency relative to foreign currencies. It allows the country to import goods at a lower cost and can help manage inflation by reducing the prices of imported goods. In contrast, floating exchange systems allow currencies to fluctuate based on market demands, and while currency value can increase, these movements are not typically termed revaluation but rather appreciation. Thus, the implications of revaluation are distinctly related to fixed exchange rate systems and denote an increase in the nominal value of the currency, thereby confirming the correctness of the chosen answer.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://ibeconomicshl.examzify.com>

We wish you the very best on your exam journey. You've got this!

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